

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

UNITED STATES OF AMERICA,

Plaintiff,

v.

JACK STEPHEN PURSLEY,

Defendant.

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Case 4:18-cr-00575

DEFENDANT'S PROFFER AS TO H. STEPHEN GRACE, JR., PH.D

As ordered by the Court, Defendant Jack Stephen Pursley ("Pursley") submits and files this affidavit of H. Stephen Grace, Jr., Ph.D. ("Dr. Grace") as a proffer of the (brief) direct testimony that Pursley seeks to elicit from Dr. Grace. Dr. Grace's testimony is critical to the defense of the Government's argument that either the real estate investment companies owned by Pursley were shams, or the investments into Pursley's companies were sham transactions, because the companies did not own assets when the investments were made. *See*, e.g., par. 21 of the Indictment.

Respectfully submitted,

/s/ Victor D. Vital

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Attorneys for Defendant Jack Stephen Pursley

CERTIFICATE OF SERVICE

I certify that on August 29, 2019, a copy of this document was served on all counsel of record through filing on the ECF System.

/s/ Victor D. Vital
Victor D. Vital

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AFFIDAVIT FROM H. STEPHEN GRACE, JR., PH.D.

BEFORE ME, THE UNDERSIGNED AUTHORITY, PERSONALLY APPEARED H. Stephen Grace, Jr., Ph.D., who first being duly sworn or affirmed by me, under penalty of perjury, deposed as follows:

1. I am the CEO and President of H.S. Grace & Company, Inc., an entity which provides financial and operational advisory services to companies. Previously, I served as Sr. Vice President of Finance and CFO of Century Development Corporation, with responsibility for day-to-day financial and operational activities of more than 10 million square feet of commercial space. I later served as president and CEO of Dane Development, performing finance, project management and related work for developers and lenders, in connection with more than \$100 million of projects. Prior to my role at Century Development, I served as the Assistant Treasurer of Zapata Corporation and invested millions of dollars of Zapata Corporation funds on a daily basis.
2. I hold an M.B.A. from the University of Chicago, and a Ph.D. in Economics from the University of Houston.

3. I will state that Pursley's real estate companies, Gulf States Management Corporation and Four Sevens Investment Corporation, did have substantial value when Diversified Land Holdings and Australian Partners Holding Corporation purchased stock in the companies. That value was attributable to the business plan developed by Pursley and augmented by the real estate auction idea/concept/approach that Schrader Westchester brought to the table through its contract with Gulf States Management Corporation. It is common and typical for companies embarking on new real estate development to raise substantial sums from investors before assembling and purchasing land, investing in infrastructure, addressing the carrying costs on the land to be developed in later phases, and beginning development. Such investments are made before there is any valuable asset or anything else of value in the real estate companies created, other than an idea. Greenway Plaza, a major mixed use development in Houston which Dr. Grace participated in developing, was developed in just such a way, with considerable backing from investors, and a complex partnership agreement in place, before the first properties could be bought and assembled.
4. I will testify that the use of a special purpose entity to hold just one piece of real estate, such as Arosa Partners owning a single property in Colorado, is not sinister, illegal or non-customary in real estate investing and development.
5. I will testify that the corporate structures used for the real estate investments made by Diversified Land Holdings and Australian Partners Holding Corporation are of the type commonly used for real estate development and investment.

6. I will testify that, during a down market and otherwise, it is reasonable and customary for capitalized companies to find other ways to deploy their capital, such as through loans made at an agreed rate of interest.


AFFIANT'S SIGNATURE

SUBSCRIBED AND SWORN TO
AFFIRMED before me, on the 28th
day of August, 2019
by AFFIANT H. Stephen Grace, Jr.

